

Message Text

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PAGE 01 ROME 04695 221851Z
ACTION EUR-12

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AMCONSUL FLORENCE
AMCONSUL MILAN
AMCONSUL NAPLES
US MISSION EC BRUSSELS 8111
US MISSION NATO BRUSSELS 3795
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C O N F I D E N T I A L ROME 4695

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E.O. 11652: GDS
TAGS: PINT, PFOR, IT
SUBJ: ITALIAN GOVERNMENT PRESENTS IMF TERMS TO PARTIES

REF: ROME 4613

1. PM ANDREOTTI MET MARCH 21 WITH LEADERS OF THE
ABSTAINING POLITICAL PARTIES AND EXPLAINED TO THEM
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PAGE 02 ROME 04695 221851Z

THE TERMS OF THE DRAFT LETTER OF INTENT PREPARED BY
THE IMF MISSION (REFTEL). THE MEETINGS PRODUCED
NO IMMEDIATE DECISIVE DEVELOPMENTS. ALL OF ANDREOTTI'S
INTERLOCUTORS SEEMED TO HAVE BEEN CAREFUL TO AVOID
RAISING ALREADY HIGH TENSIONS. COMMUNIST,
SOCIALIST AND SOCIAL DEMOCRATIC LEADERS EXPRESSED
THEIR GENERAL RESERVATIONS IN MILD TERMS. ONLY

THE SMALL LIBERAL AND REPUBLICAN PARTIES SIGNALLED ACCEPTANCE OF THE LETTER OF INTENT, AND THE REPUBLICANS REPEATED THEIR OPPOSITION TO THE GOVERNMENT'S GENERAL APPROACH TO SOLVING ECONOMIC PROBLEMS. TODAY PM ANDREOTTI IS REVIEWING THE STATE OF PLAY WITH LEADERS OF HIS OWN PARTY, THE DC, WHILE THE OTHER PARTIES ARE ESTABLISHING THEIR POSITIONS FOR THE ROUND OF BILATERAL CONSULTATIONS PROPOSED BY THE SOCIALISTS, WHICH BEGIN TOMORROW. ANDREOTTI'S ENCOUNTER WITH THE LABOR CONFEDERATIONS, WHICH WILL BARGAIN HARD OVER ANY MODIFICATION OF THE WAGE INDEXATION SYSTEM, IS EXPECTED LATER IN THE WEEK.

2. AS THEY EMERGED FROM THEIR MEETINGS WITH ANDREOTTI, THE PARTY LEADERS GAVE JOURNALISTS THE IMPRESSION THAT THE PRIME MINISTER HAD SIGNALLED A CERTAIN DEGREE OF FLEXIBILITY ON THE TERMS OF THE LETTER OF INTENT. PCI SECRETARY BERLINGUER ACCEPTED THE CONCEPT OF PROVIDING THE IMF WITH ECONOMIC POLICY GUARANTEES, BUT SAID THAT HIS PARTY WOULD FEEL FREE TO PRESS FOR MODIFICATION OF THE FISCALIZATION DECREE IN PARLIAMENT. A SOCIALIST ECONOMIC SPOKESMAN SAID THAT AN AGREEMENT ON THE COST OF LABOR SEEMED POSSIBLE BECAUSE THE GOVERNMENT SEEMS "AVAILABLE" FOR NEGOTIATIONS. COMMENT: THE ISSUE AT STAKE IS OF COURSE MUCH LARGER THAN THAT OF "STERILIZATION" OF THE IVA INCREASES. WITH THE EXCEPTION OF THE LIBERALS, ALL OF THE ABSTAINING PARTIES ARE IN FAVOR OF THE CONCEPT OF A "MAJORITY
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PAGE 03 ROME 04695 221851Z

PROGRAM" WHICH WOULD SOMEHOW TIE THE ECONOMIC STABILIZATION PROGRAM TO INDUSTRIAL RECONVERSION AND NEW INVESTMENTS. IN THE DC'S VIEW, A "MAJORITY PROGRAM" IS ONLY A EUPHEMISM FOR DE FACTO PCI PARTICIPATION IN THE MAJORITY. IN ALL LIKELIHOOD, THE SOCIALISTS WILL UTILIZE TOMORROW'S BILATERAL MEETING TO TRY TO CONVINCE THE DC THAT A PROGRAMMATIC ACCORD IS THE MINIMUM STEP WHICH WOULD PERMIT PASSAGE OF THE NECESSARY ECONOMIC STABILIZATION MEASURES WITHOUT FORMAL CHANGES IN THE GOVERNMENT. END COMMENT.

3. ACCORDING TO NEWSPAPER REPORTS, THE PRIME MINISTER'S EXPOSITION OF THE LETTER OF INTENT GENERALLY FOLLOWED EXPECTED LINES. THE ONLY NEW ASPECT OF THE FUND'S PRESCRIPTION WHICH EMERGED DURING THE MEETING IS THE RECOMMENDATION FOR EITHER A FURTHER INCREASE OF TAXES OR DECREASE IN GOVERNMENT EXPENDITURES IN THE AMOUNT OF 2000 BILLION LIRA DURING 1977.

4. PERHAPS IN REACTION TO THE POLITICAL PROBLEMS ASSOCIATED WITH THE IMF LETTER OF INTENT, THE LIRA ENCOUNTERED DIFFICULTY YESTERDAY ON THE FOREIGN EXCHANGE MARKET. THE BANK OF ITALY REPORTEDLY INTERVENED RATHER HEAVILY ON THE MARKET TO PREVENT A SIZEABLE DECLINE. THE LIRA'S DIFFICULTY CAUSED A HURRIED MEETING BETWEEN ADREOTTI, THREASMIN STAMMATI, AND BANK OF ITALY GOVERNOR BAFFI, WHICH WAS WIDELY DRAMATIZED IN PRESS REPORTS. GARDNER

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